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STATE OF MICHIGAN
OFFICE OF FINANCIAL AND INSURANCE SERVICES
DEPARTMENT OF CONSUMER & INDUSTRY SERVICES
David C. Hollister, Director

DATE: February 27, 2003

LETTER NO.: 2003-CU-01

TO: The Board of Directors and Management of Michigan State-Chartered
Credit Unions

SUBJECT: **Optional Bylaw Provision - Automated Loan Approval**

Introduction:

This letter is to advise credit unions of an available bylaw option permitting automated loan approval based on predetermined lending criteria and to briefly outline appropriate due diligence which should be exercised in the implementation of such a program.

Bylaw Article for Loans:

The current standard and optional bylaw provisions for "Loans", commonly Article XII, require documented approval for each loan by a loan officer, credit committee, or board of directors if there is no credit committee and the records of the credit union shall reflect who granted the approval. As such, automated approval has not specifically been addressed.

An alternate bylaw option is now available, which permits loan approval via "the use of predetermined loan approval criteria" approved by the board of directors. If a credit union's board of directors wants to amend their bylaws, the sample bylaw index and instructions to request a bylaw amendment are found on the www.michigan.gov/ofis website, under Forms - Credit Union.

Due Diligence in Automated Lending:

Appropriate due diligence must be exercised in the development and implementation of an automated loan approval process, based upon board predetermined loan approval criteria. Management and Boards of Directors must ensure that adequate controls are in place to protect the credit union from undue risk.

This will include, but may not be limited to:

Clearly defined, quantitative parameters:

- The credit union's loan policy must appropriately address this type of product.
- The predetermined loan approval criteria must be clearly defined and documented; the qualifying factors cannot be ambiguous or subjective.
- All such approval criteria must be specifically approved by the board of directors and documented in the board minutes; a file must be maintained to document and track approved loan products.
- Controls must be in place to ensure that the automated process is immediately updated, at all levels, upon a change in board-approved criteria.

Regular review of approved criteria:

- The board of directors must regularly review approved criteria and make adjustments promptly when appropriate, to ensure the criteria reasonably reflects the credit union's strategic goals.
- The automated process and predetermined loan approval criteria must not expose the credit union to undue interest rate, credit, strategic, or liquidity risk.

Control over the automated process:

- Controls must be in place to ensure the predetermined qualifying criteria are met prior to loan disbursement.
- The automated process must be regularly reviewed, with controls in place to ensure that it is functioning properly. This includes a periodic review of individual loans granted, at least on a sample basis.
- The process must ensure that all required disclosures are provided and within time frames prescribed in regulation. The process must ensure that all other pertinent regulations are adhered to.
- Management and the board of directors must continually review the appropriateness and effectiveness of the automated process. This may include separate tracking of delinquency and losses of loans granted through this method.

Questions

If you have any questions regarding this bylaw option, or need additional information, please contact the Credit Union Division at (517) 373-6930.

Very truly yours,

Ronald C. Jones, Jr.
Chief Deputy Commissioner
Office of Financial and Insurance Services